



Pete Sywenki

Director, Federal Regulatory Relations

**Law & External Affairs** 

1850 M Street, NW, Suite 1100 Washington, DC 20036 Voice 202 828 7452 Fax 202 296 3469 pete.n.sywenki@mail.sprint.com

# EX PARTE OR LATE FILED

**EX PARTE** 

September 10, 1998

Ms. Magalie Roman Salas Secretary - Federal Communications Commission 1919 M Street, N.W. Room 222 Washington, D.C. 20554 RECEIVED

SEP 1 0 1998

FEDERAL COMMUNICATIONS COMMUNICATIONS COMMUNICATIONS OF THE SECRETARY

RE: CC Docket Nos. 96-45

Dear Ms. Salas,

Yesterday, a meeting was held with respect to the above referenced proceeding between representatives of Sprint and David Baker, Commissioner of the Georgia Public Service Commission and member of the Universal Service Federal-State Joint Board. Representing Sprint were Mark Askins, Rick Kapka, and Tony Key. Attached are materials that were discussed during this meeting.

The original and a copy of this notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(b)(1) of the Commission's rules. If there are any questions, please call.

Sincerely,

Peth. Synent.

Pete Sywenki

Attachment

No. of Copies rec'd Off



# SPRINT'S UNIVERSAL SERVICE FUND PROPOSAL

September 1998

Mark Askins 913-624-1320 Rick Kapka 913-624-6817

## **Sprint**.

- ◆ Existing, implicit subsidies must be eliminated. To the extent that subsidies are required, they should be funded through an explicit, competitively neutral USF.
  - \* The elimination of implicit subsidies is required by the Telecommunications Act of 1996.
  - \* Existing, implicit access subsidies:
    - are not competitively neutral (only IXCs/toll users fund subsidies);
    - thwart facilities-based local competition; and
    - uneconomically and inequitably burden long distance users.



◆ Current rate structures impede facilities-based local competition, particularly in the residential market.

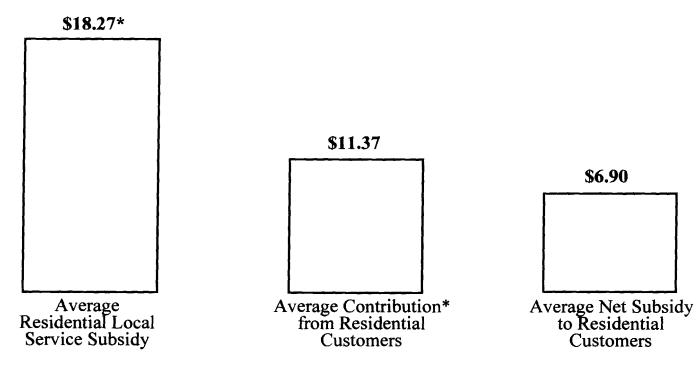
Percent Customers who are Profitable to Serve\*
(Sprint LTD Data)

	Residential	<b>Business</b>
Total	29%	77%
Low Cost Areas (Local Service Costs ≤ \$25)	52%	99%
[Percent of Total Customers in Low Cost Areas]	[27%]	[39%]

<sup>\*</sup>Comparison of total revenues generated by customers to the total cost of service, based on BCPM with FCC inputs.



- ◆ As a subsidy mechanism for universal service, the current rate structure is highly inefficient; a large proportion of the subsidy is paid by those customers who are intended to be the beneficiaries of subsidies.
  - \* Based on a study of Sprint LTD customers, over half of the subsidy to residential local service is provided by residential customers
    - ◆ At the cost of highly inefficient prices



<sup>\*</sup> Includes interLATA and intraLATA access and features.

### **Sprint**.

- ♦ As a subsidy mechanism for universal service, the current rate structure is highly inefficient: a large proportion of the subsidy is paid by those customers who are intended to be the beneficiaries of subsidies.
  - \* Low income consumers also utilize toll services, and thereby contribute to, as well as receive, subsidies.

    Expenditures on Long Distance Bill\*

HH Income Group	<u>% of H</u>	Average LD Bill	
Under 10K Annually	11.1	\$16.17	
\$10K-\$19,999	18.9	\$19.11	
\$20K-\$29,999	18.8	\$21.94	
\$30K-\$39,999	15.3	\$21.73	
\$40K-\$49,999	10.8	\$20.09	
\$50K-\$74,999	19.1	\$26.80	
\$75K-\$99,999	3.7	\$27.51	
\$100K and Over	2.3	\$28.78	

<sup>\*</sup> Source: PNR Bill Harvesting



#### Principles upon which the federal USF plan should be based:

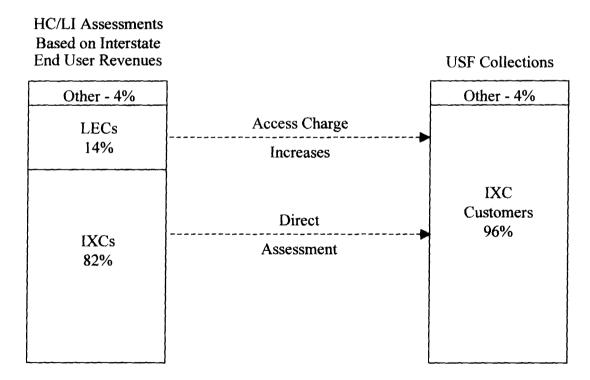
- Support should be based on forward looking costs.
  - Using a forward-looking cost methodology as the starting point in calculating the support amount is appropriate since it enables the Commission to arrive at a rate that emulates competitive market conditions. Facilities-based competition will not develop unless the sum of revenues and subsidies is predictable and accurate. Using forward-looking costs is the only way the marketplace will send the correct signals to potential entrants.
    - If costs are over-estimated, that will attract inefficient entry that should not occur.
    - If costs are under-estimated, that will discourage efficient entry that should occur.



- ◆ Federal USF should be a national fund, based on both state and interstate retail revenues
  - \* The Commission has stated, both in its May 8th Order and in its recent Report to Congress, that Section 254 grants it the authority to create a national fund made up of contributions from intrastate as well as interstate revenues.
  - ❖ In order to ensure competitive neutrality, as well as sufficient support flow between states, a national fund is not only reasonable, but essential.



- ♦ Assessing USF contributions on only interstate revenues effectively imposes the entire burden of USF support on interstate toll customers.
  - \* This is exacerbated since LECs "flow through" their obligations to IXCs in the form of higher access charges.





- **♦ A National USF Fund Based on Total Retail Revenues** 
  - Provides the broadest basis of support
    - Minimizing the burden on any particular service or jurisdiction
  - Is competitively neutral
- ♦ Although concerns about cross-state subsidy flows (e.g., customers in low-cost states having to subsidize customers in high-costs states) are legitimate, it must be recognized that such cross-state subsidy flows exist today, in the form of the implicit subsidies built into access.
  - \* Rationalization of those subsidy flows can benefit customers in all states.



- ♦ Where a cost-based rate might be considered prohibitive, the federal benchmark should be based on the maximum *affordable* local service rate.
  - \* Since the benchmark is intended to be a measure of "affordability" the appropriate standard should be the basic local service rate, not average revenues.
  - \* Income considerations need not be an issue within USF, since low income households are addressed directly through the Lifeline/Link-up programs.
  - \* The federal benchmark rate should be set at a level representing the maximum affordable local service rate a rate which is considerably higher than the below-cost local service rates that exist today.



- ♦ USF should be narrowly targeted to high cost areas
  - \* Sprint believes that costs and support should be determined on a census block group level.
- **◆** USF support should be equally available to all Eligible Telecommunications Carriers (ETCs)
- **◆** Implementation of the plan should be revenue neutral at its inception
  - \* Any new USF funding (i.e., funding in excess of current levels of high cost support) to a company should be offset, dollar-for-dollar, with reductions in intrastate access charges.



- ♦ USF fund obligations should be recovered through a surcharge on end users' retail charges.
  - \* The end user surcharge is the key to any workable USF plan. Without it, competitive neutrality, both in terms of contribution levels and recovery, is a virtual impossibility.
  - \* Because implicit subsidies exist today, end users are already supporting the universal service fund. Consequently, the removal of these implicit subsidies, replaced with the explicit surcharge, will not result in an overall increase in consumer charges.



- ◆ USF support can be phased-in to minimize the customer surcharge
  - \* Total industry retail revenues are growing at approximately 12% per year.
  - \* Whereas access lines are growing at only 4.3% a year.
    - And USF-eligible access lines (i.e., access lines in rural, high-cost areas) may be growing less than the average.

	1998	<u>1999</u>	<u>2000</u>	<u>2001</u>	2002	2003	2004
Total Retail Revenues (Billions)	\$188	\$211	\$236	\$264	\$296	\$331	\$371
USF Support available with 3% surcharge (Billions)	\$5.6	\$6.3	\$7.1	\$7.9	\$8.9	\$9.9	\$11.1



#### ♦ States are free to adopt intrastate USF plans if they desire

- \* Employing a lower benchmark affordable rate, the state plan could act as a safety net for those areas where the federal benchmark rate may, in the state's opinion, prove burdensome.
- \* Funding for state plans must come solely from intrastate retail revenues.
- \* Kansas has implemented a state USF based on a surcharge on customer bills
  - access rates have been reduced
  - long distance prices have declined significantly
  - there has been no negative impact on universal service